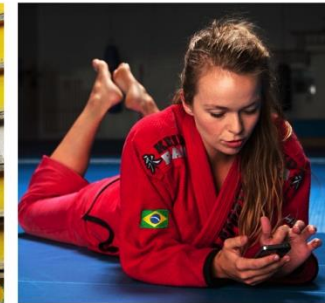
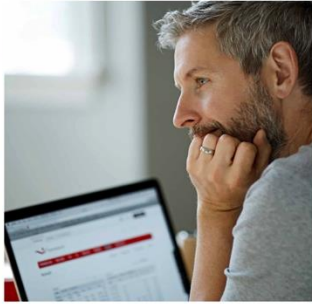


25 August 2015

1H2015 Financial Results



Forward Looking Statements

Important information

All information contained in this presentation should be regarded as preliminary and based on company data available at the time of the presentation. Due care and attention has been used in the preparation of forecast information. However, actual results may vary from their forecasts, and any variation may be materially positive or negative. Forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Íslandsbanki.

Íslandsbanki cannot guarantee that the information contained herein is without fault or entirely accurate. The information in this material is based on sources that ÍSB believes to be reliable. Íslandsbanki can however not guarantee that all information is correct. Furthermore, information and opinions may change without notice. ÍSB is under no obligation to make amendments or changes to this publication if errors are found or opinions or information change. Íslandsbanki accepts no responsibility for the accuracy of its sources.

Íslandsbanki and its management may make certain statements that constitute “forward-looking statements”. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often use words such as “anticipates,” “targets,” “expects,” “estimates,” “intends,” “plans,” “goals,” “believes” and other similar expressions or future or conditional verbs such as “will,” “should,” “would” and “could.”

The forward-looking statements made represent Íslandsbanki’s current expectations, plans or forecasts of its future results and revenues and beliefs held by the company at the time of publication. These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions that are difficult to predict and are often beyond Íslandsbanki’s control. Actual outcomes and results may differ materially from those expressed in, or implied by, any of these forward-looking statements.

Forward-looking statements speak only as of the date they are made, and Íslandsbanki undertakes no obligation to update any forward-looking statement to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made.

Íslandsbanki does not assume any responsibility or liability for any reliance on any of the information contained herein. Íslandsbanki is the owner of all works of authorship including, but not limited to, all design, text, sound recordings, images and trademarks in this material unless otherwise explicitly stated. The use of Íslandsbanki’s material, works or trademarks is forbidden without written consent except were otherwise expressly stated. Furthermore, it is prohibited to publish material made or gathered by ÍSB without written consent.

Table of Contents

- I. Overview
- II. Income Statement
- III. Assets
- IV. Liabilities, Liquidity & Capitalization

I. Overview

Eventful first half of 2015

Investment grade rating and proposed changes in capitalization

1

S&P and Fitch assigned Íslandsbanki BBB-rating with stable outlook

- Terms Continue to improve, with February 2015 issue at 3 month Stibor + 310bp, April tap tightening to 297 bp and July 2015 down to 275bp.
- In July, the Bank issued a EUR 100m 2.875% Fixed Rate Note due 2018.

2

Strong ROE on regular operations

- ROE on regular operations (14% CET1) was 13.9% vs. 12.4% in 1H 2014
- Net interest margin was 2.9% in 1H 2015 and 3.1% in Q2 2015

Capital buffers remain strong

3

1H15

Liberalisation of capital controls - Heads of Agreement

- Íslandsbanki entered into Heads of Agreement with its owner that would subsequently lead to a reduction in equity corresponding to a 23% equity ratio and issuing of Tier 2 bonds

Focus on cost cutting continues

- Regular administrative expenses* increased by 1.0% YoY but decreased by 0.5% in real terms
- Cost programme delivering according to plan. Cost income ratio** was 56.0%
- Reduction in FTE's by 32

5

4

* Calculated as Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items

**Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items) / Total operating income

Íslandsbanki today

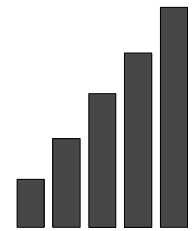
Our role in supporting the Icelandic economy and our community matters - #1 in service

AWARDS






KEY FIGURES 1H 2015

ROE (Regular operations)	13.9%
Cost / Income	56.0%
Capital Ratio	28.3%
Total Assets	€ 6.6bn



EXPERTISE

-  Seafood
-  Energy
-  Offshore Service

CREDIT RATINGS

STANDARD & POOR'S
BBB-/A-3

FitchRatings
BBB-/F-3

EMPLOYEES



≈ 1000*

MARKET SHARE



+30%

BRANCHES



17

* Average number of FTE's (Parent Co.)

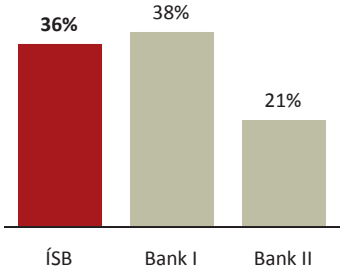
** Return from regular operations and corresponding ratios on normalized CET1 of 14%, adjusted for risk free interest on excess capital

Leading customer perception in key segments

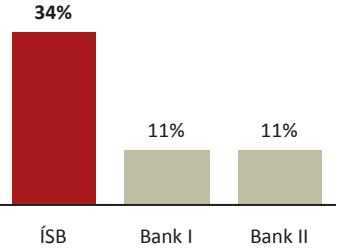
Opportunity to transform positive market perception to market share

LEADING BANK

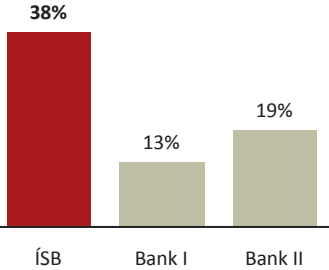
WHICH BANK IS THE LEADING BANK FOR INDIVIDUALS?¹



WHICH BANK IS THE LEADING BANK FOR LARGE CORPORATES?²

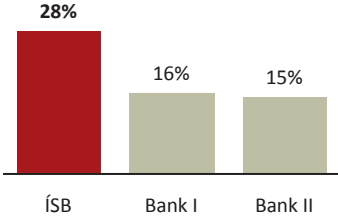


WHICH BANK IS THE LEADING BANK IN CORPORATE FINANCE?⁶



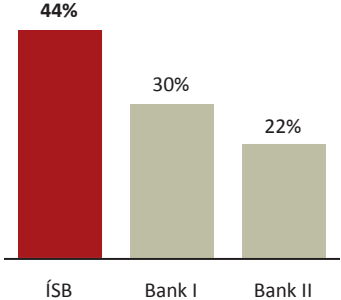
#1 for SERVICE

WHICH BANK OFFER THE BEST SERVICE FOR SME'S⁴

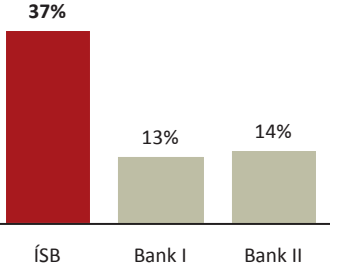


MOST PROFESSIONAL

WHICH BANK IS MOST PROFESSIONAL FOR SME'S⁴

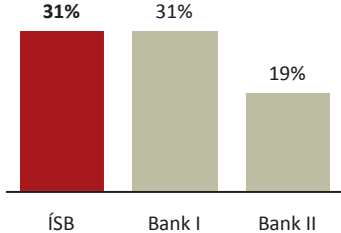


WHICH CORP. BANK IS OVERALL THE MOST PROFESSIONAL?²

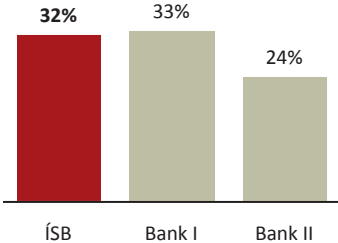


FIRST CHOICE

FIRST CHOICE FOR ASSET BASED FINANCING?⁵



WHO IS YOUR FIRST CHOICE FOR ASSET MANAGEMENT?³



1. Source: Capacent Gallup: Survey for leading bank for individuals is based on 6-month rolling average of monthly tracking done by Capacent in juli 2015. 2.Source: Capacent Gallup: Large corporate survey among 300 top corporates in Iceland according to Frjáls Verstun, an Icelandic Business Magazine, November 2014 3. Source: Capacent Gallup : Market position in savings, Mai 2015. 4.Source: Capacent Gallup: Survey amongst small and medium enterprises according to Capacent in December 2014 5.Source: Capacent Gallup: Asset based financing: Survey done for Ergo in December 2014. 6. Source: Capacent Gallup: Survey amongst large Corporation in corporate finance in December 2014.



No bank in Iceland with higher rating than **Íslandsbanki** in the **Icelandic Customer Satisfaction Index**



Euromoney named **Íslandsbanki** “**Best Bank in Iceland**” for the third year in a row



The financing of **PCC BakkiSilicon hf.** near Húsavík completed



A new branch at Grandi opened in May



Jafnlaunaúttekt
PwC
2015

Íslandsbanki awarded the **Gold standard** by PwC for Wage Equality



Íslandsbanki issued a **Global Compact Report** in accordance with the GRI standards



Íslandsbanki

sponsored **We Inspirally** a global dialogue on closing **the gender gap**, in Reykjavík and celebrated the 100th anniversary of women’s right to vote in Iceland



Reykjavík Marafon last weekend with **over 15,000 participants**, charity contribution in excess of **ISK 78 million**

FitchRatings

STANDARD & POOR'S

Íslandsbanki received **investment grade ratings** from both Fitch and S&P

Service wherever and whenever

Íslandsbanki App continues to increase service possibilities



Monthly user engagement of the **ISB App** has surpassed the user engagement of the **Online Bank**



37% of users visit the ISB App once or more per day on average



35% increase in the number of Bill Payments in the ISB App in 2015

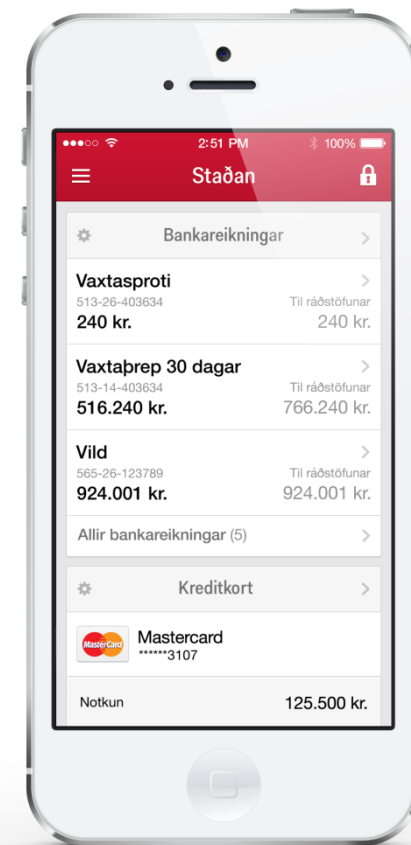


30% increase in number of **transfers** in the Mobile App in 2015

43% increase of Mobile App active users in 2015



93% of ISB App users had **downloaded the most recent edition** one month from launch



Overview

Key figures & ratios

		1H15	1H14	2Q15	2Q14	2014
PROFITABILITY	ROE (after tax), %	11.7%	16.9%	11.7%	14.5%	12.8%
	ROE 14% CET1 (regular operations)*	13.9%	12.4%	12.8%	9.3%	12.6%
	Net interest margin (of total assets), %	2.9%	3.1%	3.1%	3.1%	3.0%
	Cost to income ratio, %**	56.0%	55.6%	56.6%	61.1%	57.7%
	After tax profit, ISKm	10,790	14,655	5,394	6,359	22,750
	Earnings from regular operations, ISKm***	8,219	7,218	3,865	2,861	14,846

		30/06/2015	31/03/2015	31/12/2014	31/12/2013
CAPITAL	Total equity, ISKm	187,009	181,630	185,487	167,318
	Tier 1 capital ratio, %	25.8%	25.7%	26.5%	25.1%
	Total capital ratio, %	28.3%	28.4%	29.6%	28.4%
BALANCE SHEET	Total assets, ISKm	976,257	926,389	911,328	866,009
	Risk weighted assets, ISKm	720,552	703,188	695,102	659,757
	Loans to customers, ISKm	653,728	637,877	634,799	554,741
	Total deposits, ISKm	590,695	545,177	555,243	519,019
	Total deposit / loan ratio, %	83.7%	80.3%	82.9%	86.7%

*Return from regular operations on normalized CET1 of 14%, adjusted for risk free interest on excess capital

**Calculated as (Administrative expenses + Contribution to the Depositors' and Investors' Guarantee Fund – One off items) / Total operating income

***Earnings from regular operations is defined as earnings excluding one-off items e.g. bank tax, net loan impairment, fair value gain deriving from changes in classification of assets, costs associated with one-off costs, and net earnings from discontinued operations

II. Income Statement

Income statement

Strong growth in net fee and commission income supported by profit from equities and valuation gains

ISKm	1H15	1H14	Δ	2Q15	2Q14	Δ
Net interest income	13,550	13,568	(18)	7,359	6,922	(437)
Net fee and commission income	6,423	5,672	751	3,518	2,818	(700)
Net financial income	2,039	882	1,157	275	19	(256)
Net foreign exchange loss	(281)	(303)	22	(141)	(12)	129
Other operating income	541	1,380	(839)	252	267	15
Total operating income	22,272	21,199	1,073	11,263	10,014	(1,249)
Salaries and related expenses	(6,881)	(6,881)	0	(3,421)	(3,441)	(21)
Other operating expenses	(5,051)	(4,378)	(673)	(2,688)	(1,909)	779
Administrative expenses	(11,932)	(11,259)	(673)	(6,109)	(5,350)	759
Depositors' and Investors Guarantee Fund	(534)	(518)	(16)	(265)	(260)	5
Bank Tax	(1,328)	(1,215)	(113)	(710)	(623)	87
Total operating expenses	(13,794)	(12,991)	(803)	(7,084)	(6,233)	851
Profit before impairment	8,478	8,207	271	4,179	3,781	(398)
Net loan impairment	4,308	5,739	(1,431)	1,977	4,219	2,242
Profit before tax	12,786	13,946	(1,159)	6,156	8,000	1,844
Income tax	(2,920)	(3,550)	630	(1,524)	(2,156)	(631)
Profit for the period from continuing operations	9,866	10,395	(529)	4,632	5,844	1,212
Profit from discontinued ops. net of tax	924	4,259	(3,335)	762	515	(248)
Profit for the period	10,790	14,655	(3,864)	5,394	6,359	965

Earnings from regular operations

Strong ROE from regular operations supported by gains from equities

ISKm	1H15	1H14	Δ	2Q15	2Q14	Δ
Reported after tax profit	10,790	14,655	(3,864)	5,394	6,359	(965)
Net loan impairment before collective impairment	(4,020)	(5,386)	1,366	(1,994)	(4,322)	2,328
Bank tax	1,328	1,215	113	710	623	87
One-off costs*	0	(550)	550	0	(550)	550
Profit (loss) from discontinued ops	(925)	(4,259)	3,334	(762)	(515)	(248)
Tax impact of adjustments	1,045	1,542	(497)	518	1,267	(748)
Earnings from regular operations**	8,219	7,218	1,001	3,865	2,861	1,004
ROE 14% CET1 (regular operations)***	13.9%	12.4%		12.8%	9.3%	
ROA from regular operations (after tax)	1.8%	1.6%		1.6%	1.3%	
Net interest margin adj. 14% CET1	2.6%	2.7%		2.8%	2.7%	
Cost / income ratio adj. 14% CET1	59.6%	59.8%		60.3%	60.7%	

- Bank tax is a special tax introduced in Dec 2010. The Bank tax increased in 2013 from 0.1285% to 0.376% to fund the Government's debt relief programs. The increased taxation is assumed to be a temporary measure
- Please note that the line item Loan impairment charges and net valuation change in the Income Statement, includes collective impairment. The line item in the regular operations statement above, includes only net valuation changes

*One-off costs include a potential settlement with the competition authorities and write-down of a real estate exposure

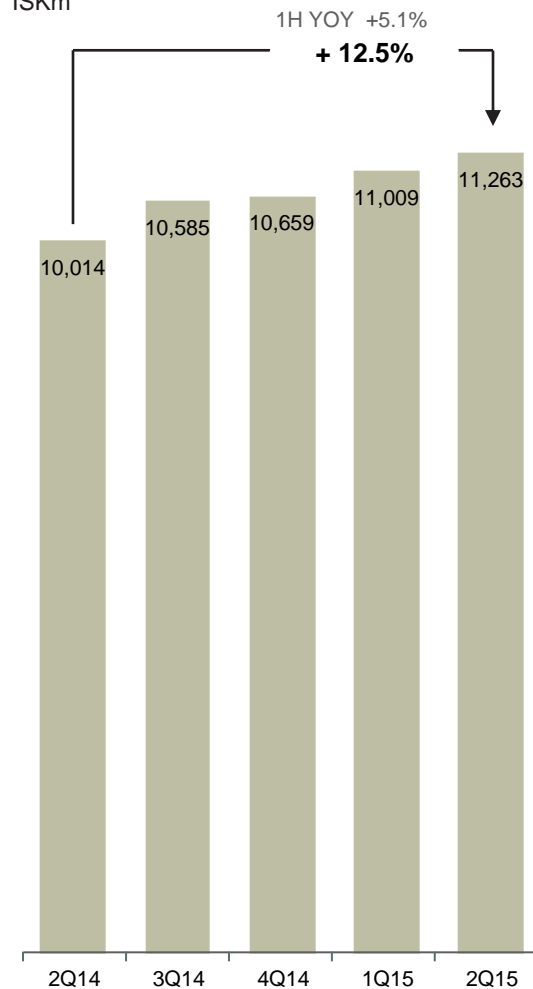
**Earnings from regular operations is defined as earnings excluding one-off items e.g. net loan impairment before collective impairment, fair value gain deriving from changes in accounting treatment, Bank tax, one off costs and net earnings from discontinued operations

*** Return from regular operations and corresponding ratios on normalized CET1 of 14%, adjusted for risk free interest on excess capital

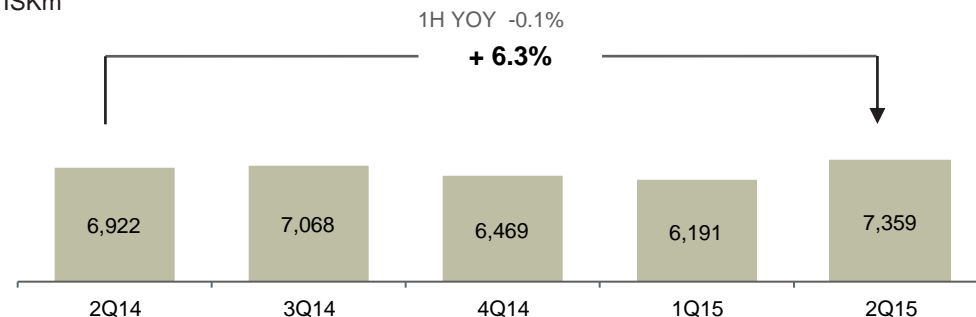
Stable interest income and growth in fee income

Growth in operating income supported by equity gains

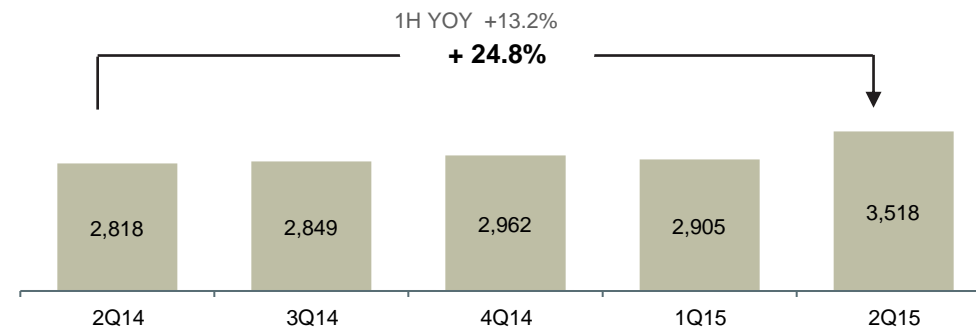
TOTAL OPERATING INCOME
ISKm



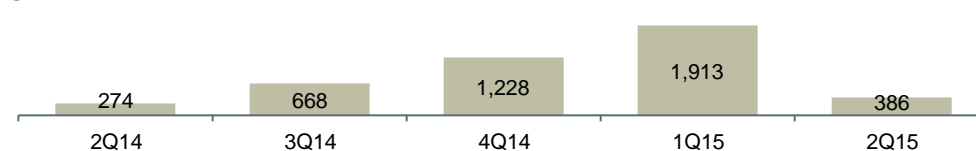
NET INTEREST INCOME (NII)
ISKm



NET FEE AND COMMISSION INCOME (NFCI)
ISKm



OTHER INCOME ¹⁾
ISKm

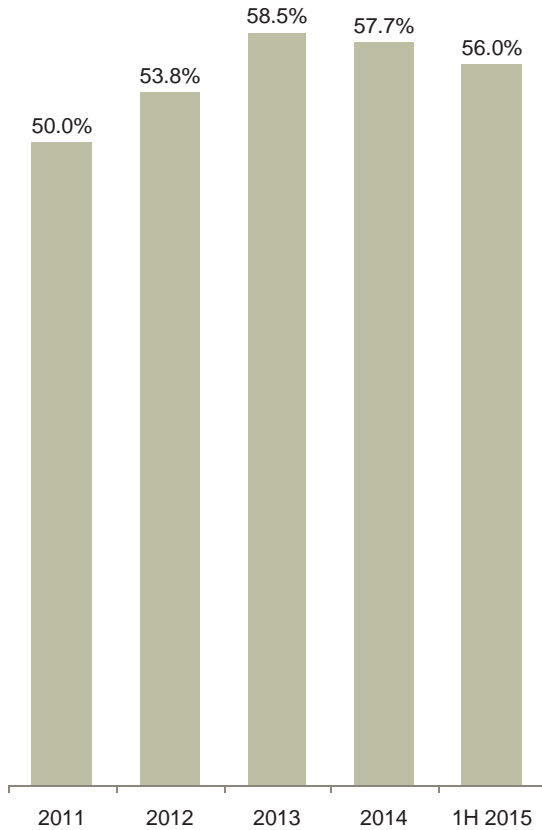


1) Note that other income includes net foreign exchange (loss) gain, net financial income, share of profit of associates and other net operating income.

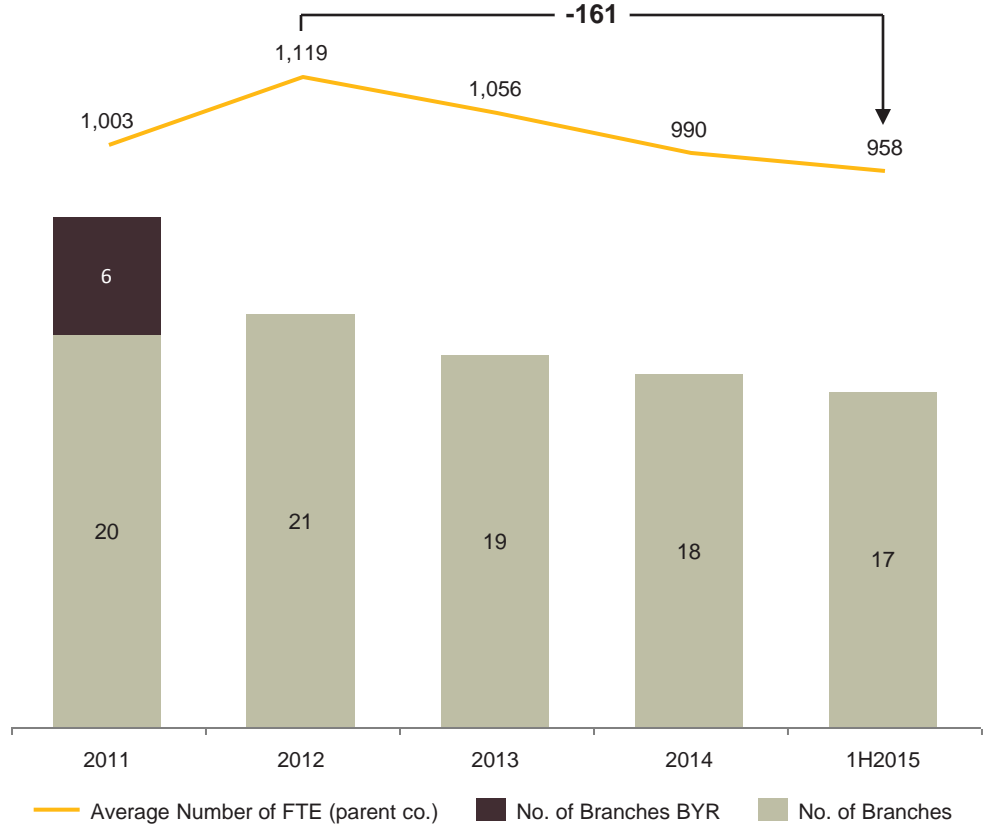
Continued focus on efficiency

Focus on lowering administrative cost and other operating costs

COST TO INCOME RATIO
%



DEVELOPMENT OF NUMBER OF BRANCHES AND NUMBER OF FTE'S
Parent Company¹⁾



1) FTE is based on Íslandsbanki Parent Company excluding redundancies, staff on leave, seasonal staff and all subsidiaries

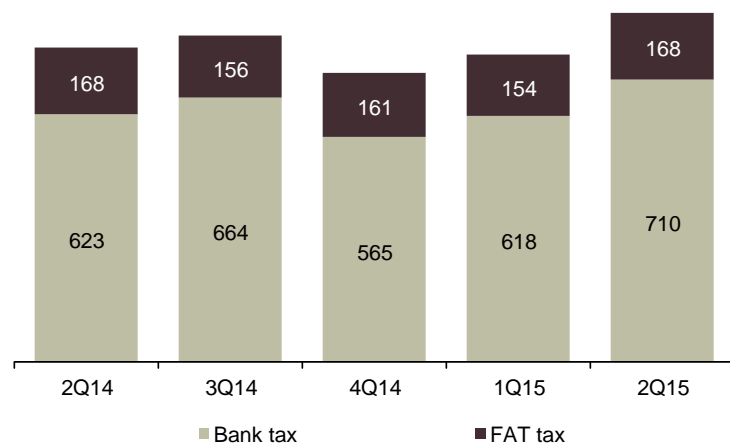
Tax & levies paid to various institutions

Taxation has increased in recent years, Bank tax is the most significant

ISKm	1H15	1H14	Δ	2Q15	2Q14	Δ
Income tax*	2,920	3,550	-630	1,524	2,156	-631
Bank tax**	1,328	1,215	113	710	623	87
Financial activities tax***	322	320	2	168	168	0
FME and The Debtors' Ombudsman	162	176	-14	80	88	-8
Depositors' and Investors' Guarantee Fund (TIF)	534	518	16	265	260	5
Total	5,266	5,778	-512	2,747	3,294	-548

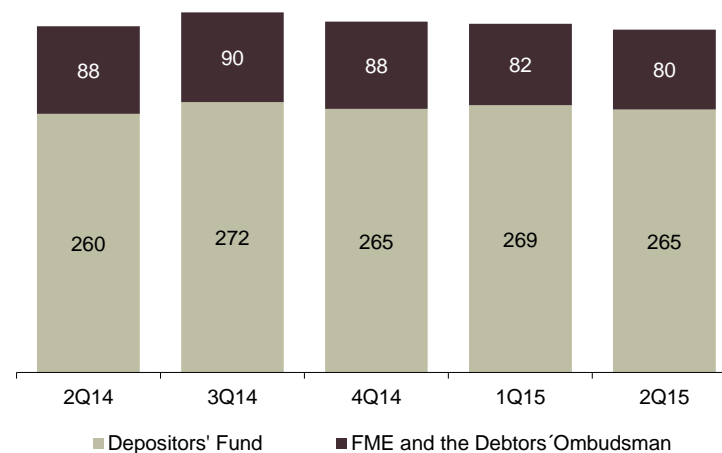
EXTRAORDINARY TAXATION

ISKm



CONTRIBUTION TO TIF, FME & OMBUDSMAN

ISKm



* Corporate tax is 20%. In addition, a new special financial activities tax was introduced in 2012 calculated as 6% of taxable profits above ISK 1bn.

** Change in legislation in Q4 2013 raised Bank tax from 0.041% on total liabilities to 0.376% of total liabilities in excess of 50bn

*** 5.5% calculated on salaries in 2014. Was 6.75% in 2013

III. Assets

Assets

Consolidated – 30 June 2015

ISKm	30.06.2015	31.03.2015	31.12.2014
Cash and balances with CB	126,900	98,274	103,389
Derivatives	1,581	1,843	1,810
Bonds and debt instruments	85,274	91,201	87,347
Shares and equity instruments	11,041	11,900	10,531
Loans to credit institutions	52,139	40,688	35,072
Loans to customers	653,728	637,877	634,799
Investment in associates	612	607	570
Property and equipment	7,600	7,521	7,402
Intangible assets	1,058	655	619
Deferred tax assets	45	270	521
Non-current assets held for sale	15,763	21,203	21,649
Other assets	20,516	14,350	7,619
Total assets	976,257	926,389	911,328

Liquid assets

- The three line items, Cash and balances with CB, Bonds and debt instruments, and Loans to credit institutions, amount to about ISK 264bn, whereby ISK 248bn are considered to be liquid assets

Bonds and debt instruments

- Mainly G5 government bonds in the Bank's liquidity portfolio

Shares and equity instruments

- Consists of shares in the banking and market making books and the shares used for hedging against derivative exposures

Loans to credit institutions

- Part of liquidity portfolio placed with highly rated banks outside of Iceland

Loans to customers

- 2.5% growth since 1Q15 despite repayments continuing to be high
- New lending amounted to ISK 66.7bn in 1H15

Non-current assets held for sale

- Three companies divested in the second quarter (ISK 4.4bn) in addition to a reduction in foreclosed mortgages

Other assets

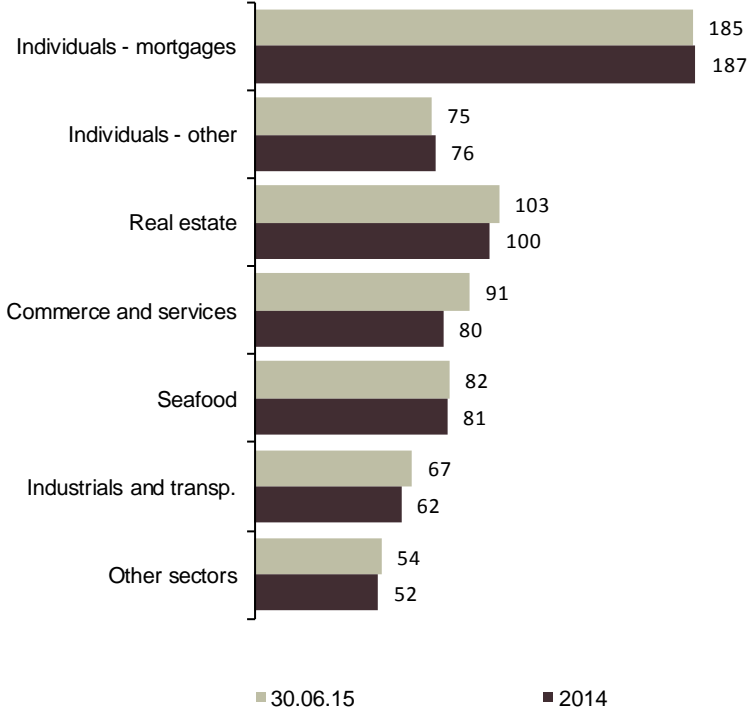
- Includes unsettled securities transactions. The date of settling fluctuates month by month and largely causing the difference between quarters

The asset encumbrance ratio is 10.75% at June 2015.

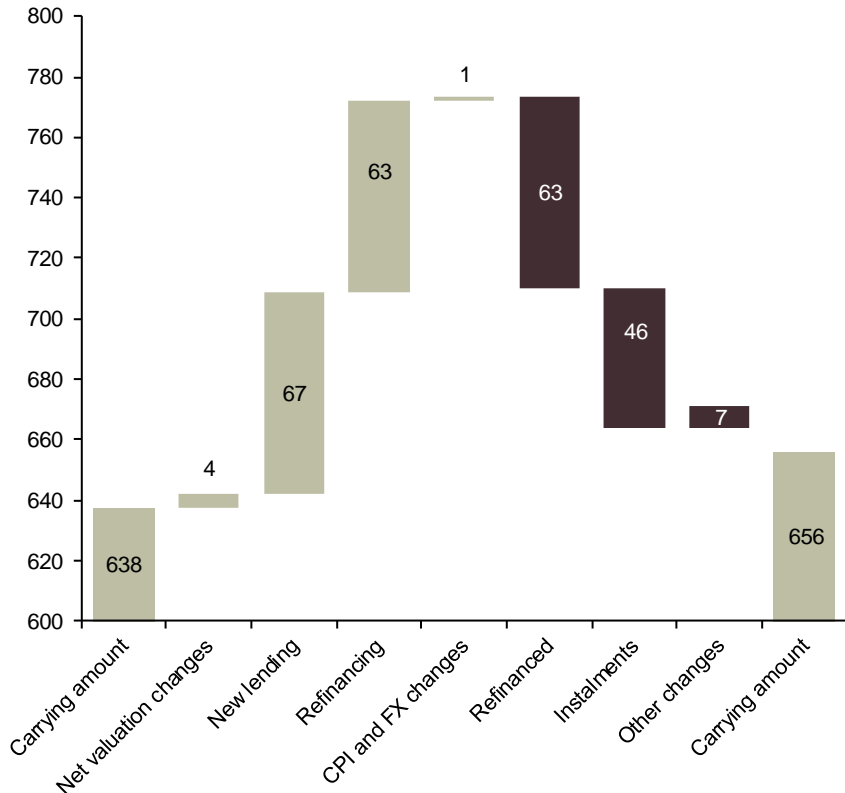
Steady growth in the loan portfolio

Corporate lending leading the growth

LOANS TO CUSTOMERS
ISKbn, by sector, consolidated



LOAN BRIDGE
ISKbn, 1H15, consolidated



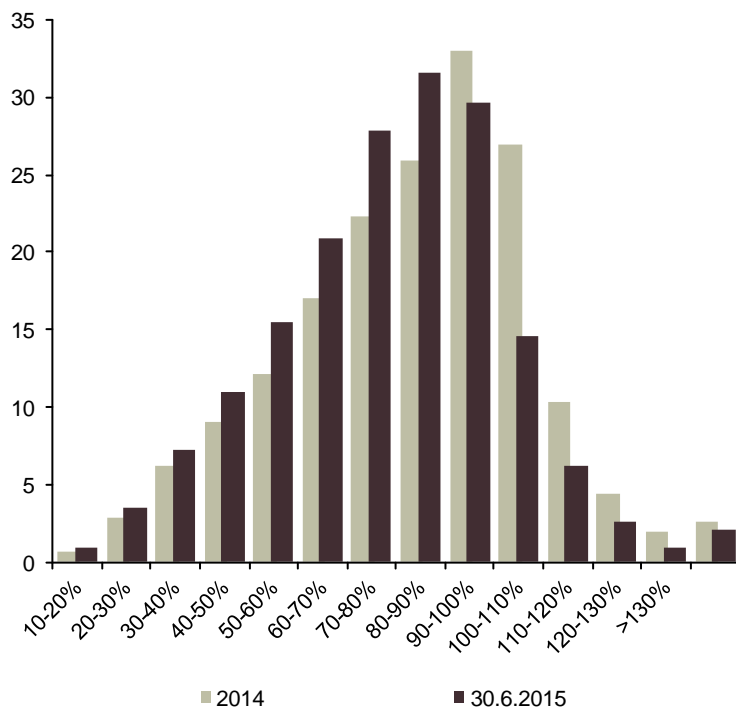
- Loans to customers increased by ISK 19bn in the first half of 2015
- Loans to companies grew by 6%, loans to individuals decreased slightly
- New lending surpassed instalments

Healthy loan portfolio

Loan portfolio considered to be performing and restructuring completed

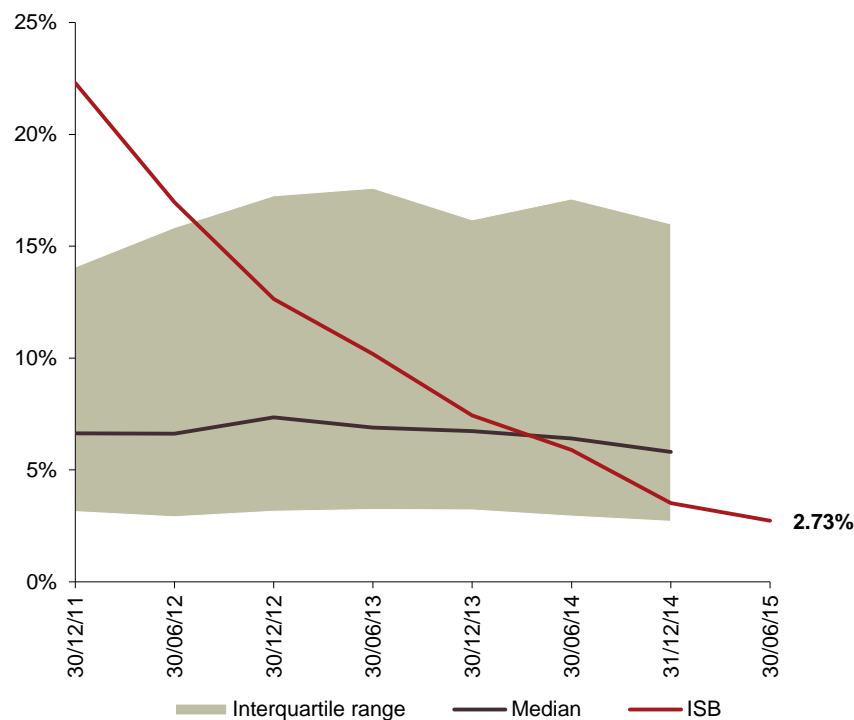
LTV DISTRIBUTION OF MORTGAGES TO INDIVIDUALS

ISKbn, as of 30.06.2015 – average LTV 68% (74% 31.12.2014)*



NON-PERFORMING LOANS (International indicator)

Impaired loans and past due (>90 days) loans to loan to customers



- Average LTV went from 74% to 68% mainly due to update in tax value but also because of the Government CPI-linked mortgage relief scheme
- The mortgage portfolio decreased by ISK 7.6bn due to the Government CPI-linked mortgage relief scheme
 - ISK 6bn via direct payments from the Government, additional ISK 2bn expected in January 2016
 - 4,500 customers have prepaid ISK 1.6bn in the pension part of the scheme
 - The non-performing ratio for mortgages affected by the scheme decreased from 2.8% to 1.9%
- The ratio measuring non-performing loans in the whole portfolio continues to decrease from 3.5% to 2.7%

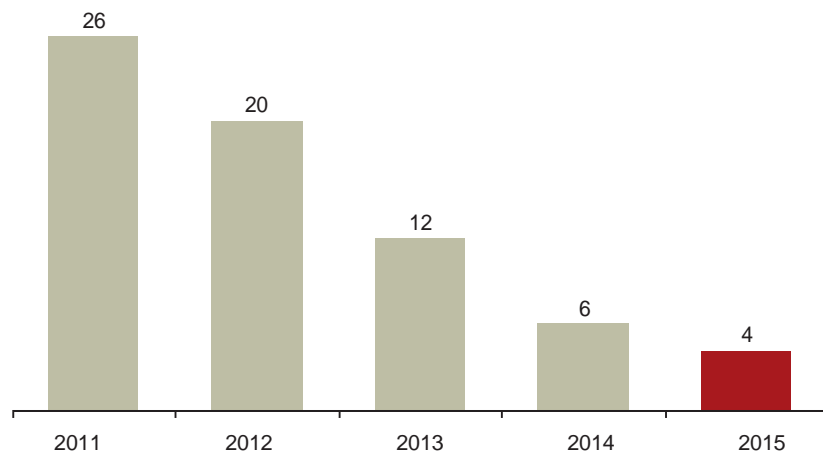
* Please note that the average LTV can be calculated in many different ways and therefore the definition is important for comparison to other banks. The weight is Íslandsbanki's total amount outstanding on the property and the LTV used is the maximum LTV of all Íslandsbanki's loans of the property. The calculation is based on tax value.

Non-core Subsidiaries

The Bank continues to divest of assets

SUBSIDIARIES NON RELATED BUSINESS

No. of subsidiaries



SUBSIDIARIES IN NON RELATED BUSINESS

30.6.2015

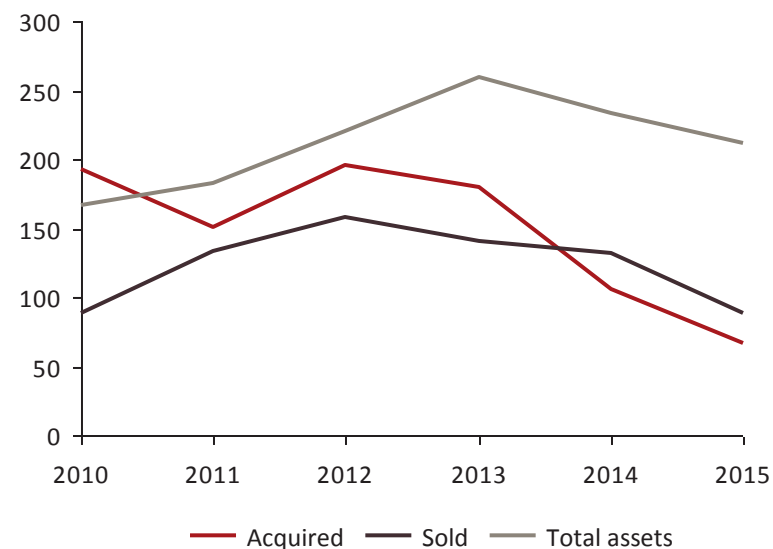
Name	Business	Country	Expected Sale date
Manston Properties	Real estate holding	UK	Q4 2015
IG Invest	Aircraft holding	Iceland	Q4 2015 or later
Frumherji	Inspections, testing and legal metrology	Iceland	Q1 2016
Atorka Group hf.	Holding Company	Iceland /UK	Q1 2016

Assets held for sale

Companies in non- related business	8,848
Residential property	4,226
Land and commercial real estate	2,217
Industrial equipment and vehicles	107
Shares and equity instruments	365
Total	15.763

RESIDENTIAL PROPERTY

No. of properties



IV. Liabilities, Liquidity & Capitalization

Liabilities

Consolidated - 30 June 2015

ISKm	30.06.2015	31.03.2015	31.12.2014
Derivatives and short positions	5,992	7,203	3,963
Deposits from CB and credit inst.	24,017	24,437	25,796
Deposits from customers	566,678	520,740	529,447
Debt issued and other borrowings	107,421	100,602	96,889
Subordinated loans	20,336	20,336	21,306
Tax liabilities	8,627	8,731	8,388
Non-current liabilities held for sale	3,000	3,167	2,790
Other liabilities	53,177	59,543	37,262
Total liabilities	789,248	744,759	725,841
Total equity	187,009	181,630	185,487
Total liabilities and equity	976,257	926,389	911,328

Deposits

- Customer deposits increased by ISK 46 billion in Q2, largely attributable to institutional investors
- Customer term deposits now 36% of total customer deposits

Debt issued and other borrowings

- Includes covered bonds, commercial paper and bond issued to the Central Bank secured on a pool of mortgages
 - Issued a SEK 300m (ISK 4.7bn) 4-year Floating Rate Note in February
 - Issued a SEK 150 million (ISK 2.35bn) tap of its existing SEK 300 million 4-year FRN in April
 - Issued ISK 5.54bn of CPI-linked covered bonds in Q2
 - Total issued covered bonds since December 2011 now amount to ISK 39.35bn

Subordinated loans

- EUR 138m denominated Tier 2 issue maturing in 2019. Only 90% of the amount eligible as regulatory capital.

Other liabilities

- Includes accruals, provisions, unsettled securities transactions and liabilities in subsidiaries

Equity

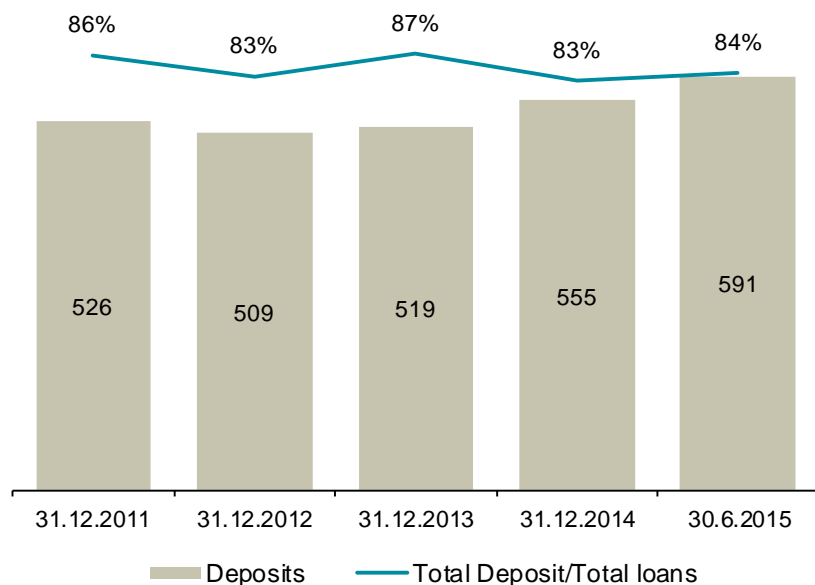
- Total equity increases 3.0%, since end of March, in line with net profit

Deposits remain a stable source of funding

Deposits have increased somewhat during 2015

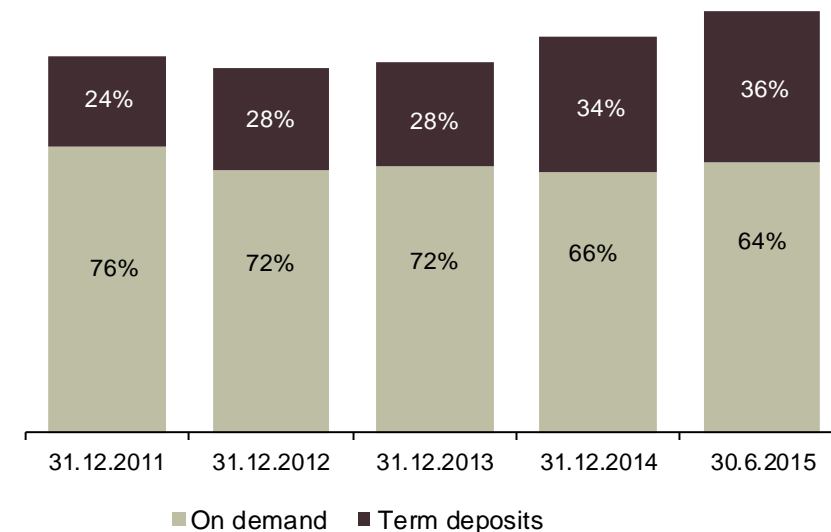
DEPOSIT DEVELOPMENT AND DEPOSIT RATIO

ISK bn, consolidated



DEPOSITS FROM CUSTOMERS

ISK bn, consolidated



Stable core deposit base

- Deposits remain the main funding source for the Bank
- Deposit to loan ratio remains high, may decrease somewhat as more investment opportunities arise in the domestic market
- Core deposits remain stable while the increase in deposits is mainly due to inflow from institutional investors.

Increased focus on term deposits

- The Bank has put emphasis on introducing new term deposit products parallel to the adoption of the LCR ratio
- Focus on notice accounts and fixed interest accounts
- Customer term deposits have been steadily increasing
- Ratio of term deposits will reduce when agreements regarding changes in the capitalization of the Bank have been executed

Foreign currency funding

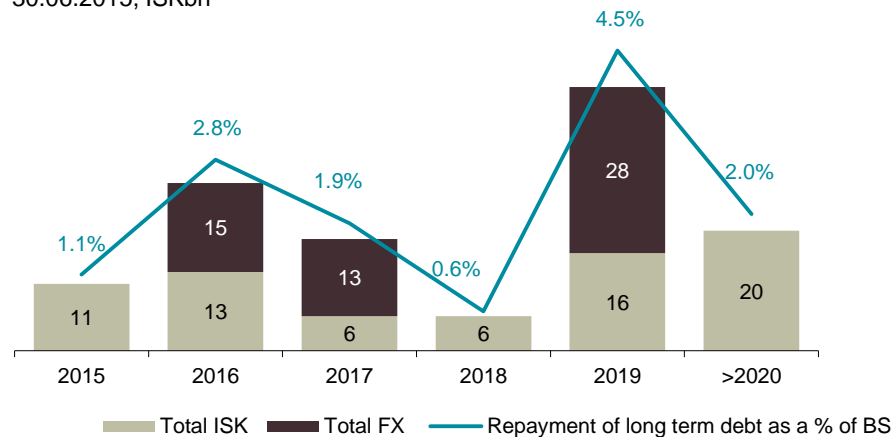
Successful issues in SEK and EUR – Investment grade rating from both Fitch and Standard & Poor's

International funding

- On April 30, Fitch assigned Íslandsbanki an investment grade rating of BBB-/F3 with stable outlook and on July 21, Standard & Poor's assigned Íslandsbanki an investment grade rating of BBB-/A-3 with stable outlook
- Terms Continue to improve, with February 2015 SEK 450 issue at 3 month Stibor + 310bp, April 2015 tap tightening to 297bp and July 2015 down to 275bp
- In July, The Bank issued a EUR 100m 2.875% Fixed Rate Note due 2018

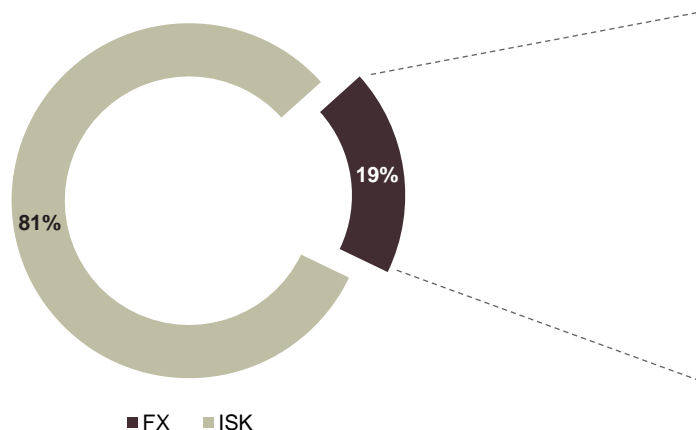
MATURITY PROFILE OF LONG-TERM DEBT*

30.06.2015, ISKbn



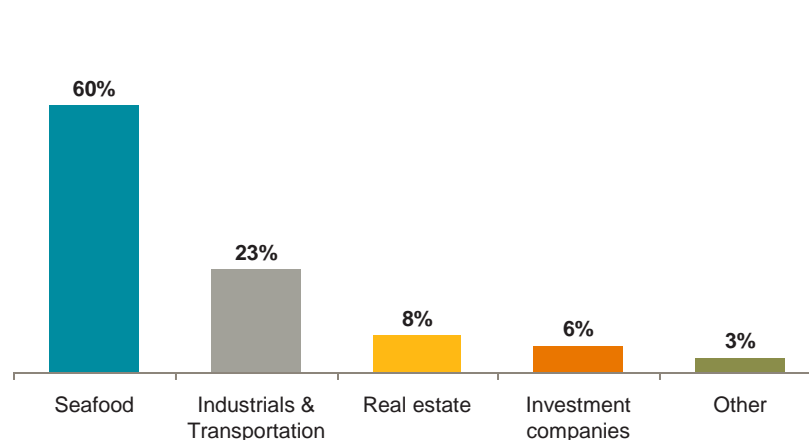
LOANS TO CUSTOMERS

% by currency as of 30.06.2015



FX LOANS TO CUSTOMERS

% by sector as of 30.06.2015



Sound management of liquidity

Liquid assets of ISK 248bn exceed internal and external requirements

LIQUIDITY BACK-UP / DEPOSIT COVERAGE RATIO

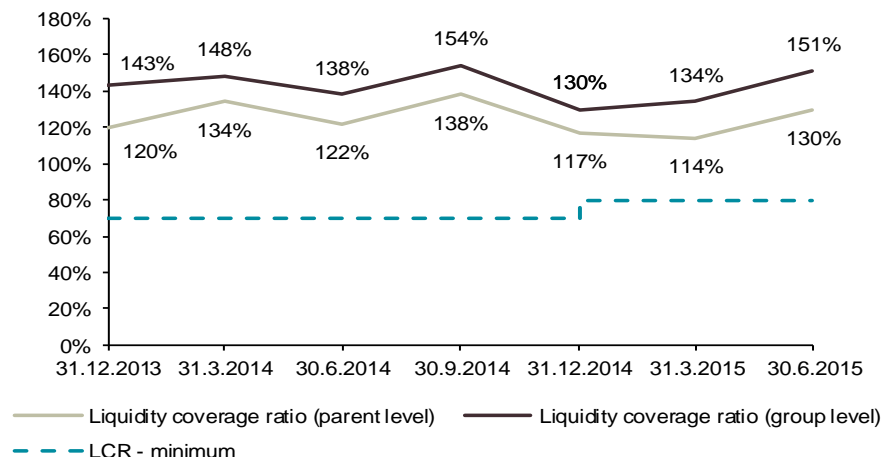
30.06.15, consolidated, ISKbn

Asset type	ISK	FX	Total
Cash and balances w ith CB	127	-	127
Balances w ith credit institutions	-	51	51
Repo eligible bonds	31	-	31
Foreign government bonds	-	38	38
Total	158	89	248

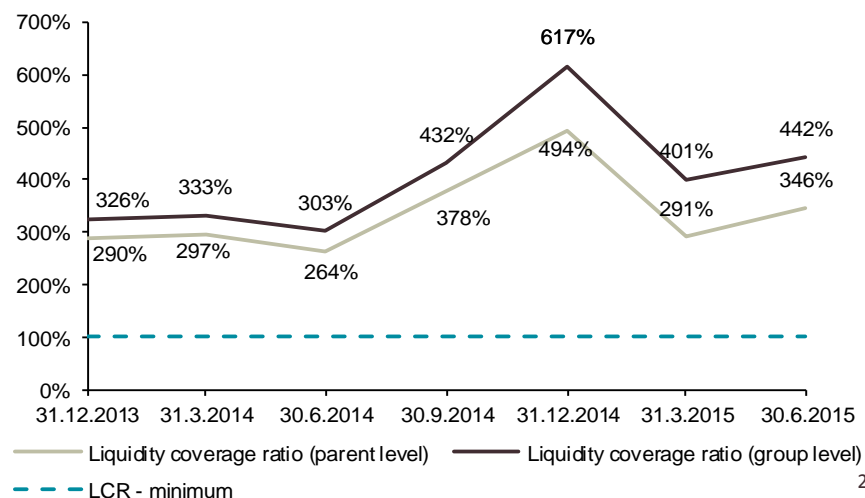
Total deposits, consolidated	491	100	591
Liquid assets to total deposits	32%	89%	42%

- All liquidity measures above regulatory requirements
- FX liquid assets:
 - FX Government bonds have a minimum requirement of AA rating
 - FX cash placed with highly rated correspondent banks
- Regulatory requirement is that the currency imbalance (total long or short) must be less than 15% of regulatory capital, currently at 10.8%

LIQUIDITY COVERAGE RATIO – ALL CURRENCIES



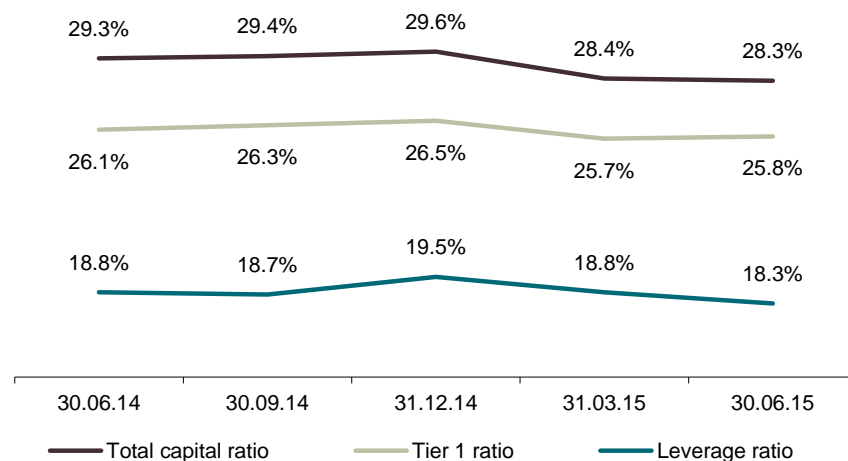
LIQUIDITY COVERAGE RATIO – FOREIGN CURRENCIES



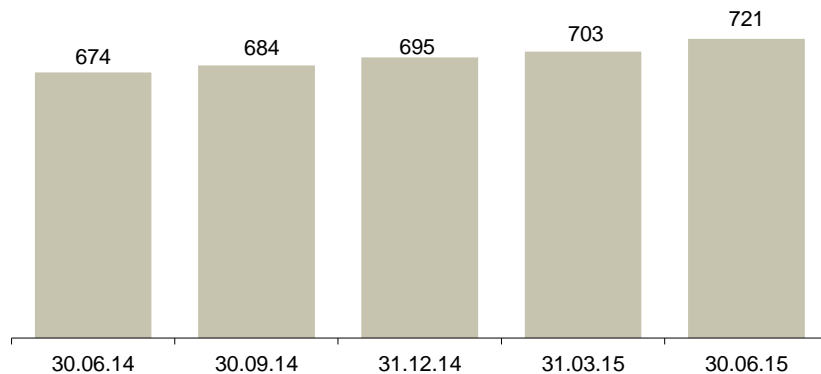
Sound capital position

Reduction in leverage ratio due to balance sheet growth and dividend payments

CAPITAL RATIOS AND RWA



RWA (ISK bn)



Capital ratios

- Total capital base was ISK 204bn at 30.06.2015 compared to ISK 200bn at 31.03.2015
 - The capital base increase due to retained earnings is partly offset by the reduction of the Tier 2 subordinated loan where only 90% is eligible as a part of the capital base.
- Capital target of minimum 18%
- Leverage ratio was at 18.3% at the end of the period
- Ratio of RWA to total assets around 74%

Risk weighted assets (RWA)

- Increase over the period mainly related to growth in loan portfolio

Dividends

- Long term dividend pay-out target ratio of 40 - 50% of net profit
- The Bank has recently entered into a Heads of Agreement with its owner on recapitalisation of the Bank based on a proposal put forth by the Icelandic Ministry of Finance and Economic Affairs to facilitate liberalisation of capital controls. As part of the agreement, the Bank will pay dividends that would subsequently lead to a reduction in equity corresponding to a 23% equity ratio.

Heads of Agreement with ISB owner

Íslandsbanki's part in facilitating towards liberalisation of capital controls

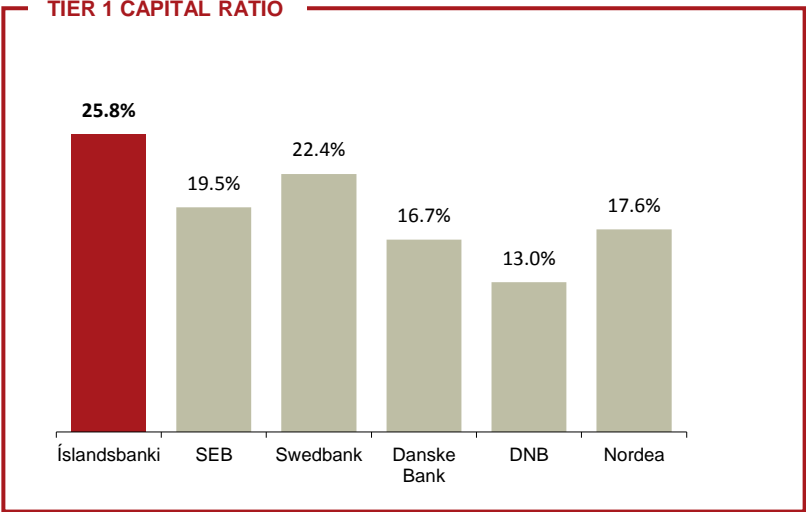
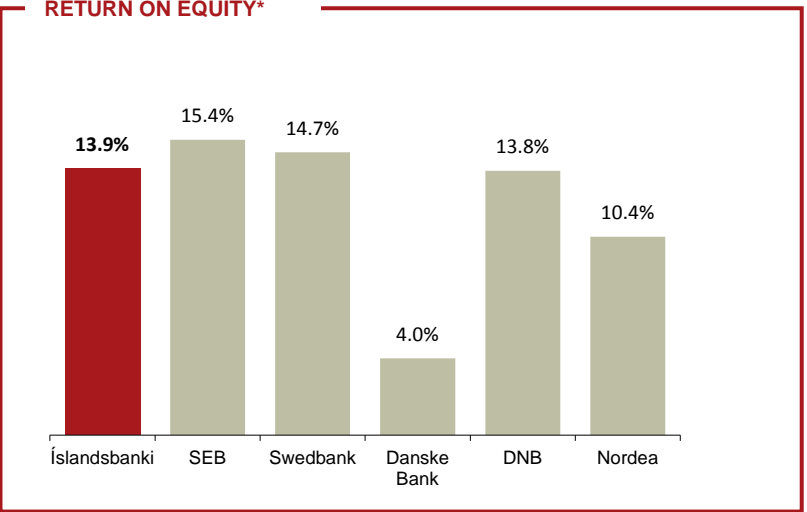
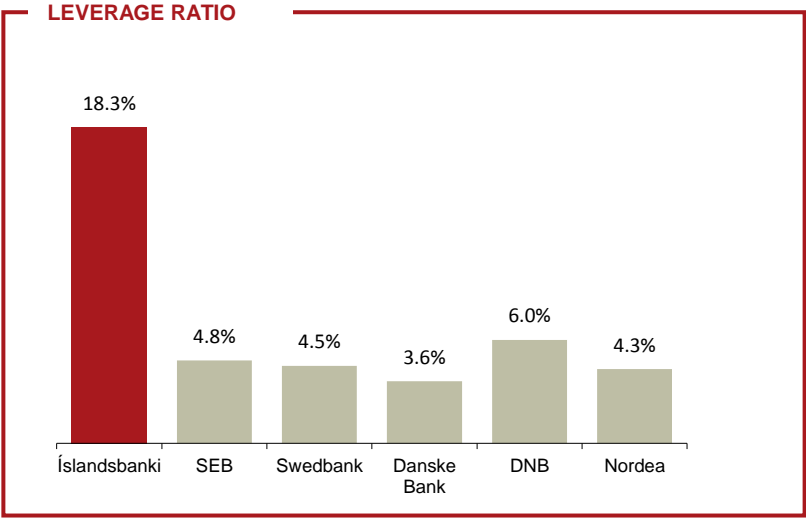
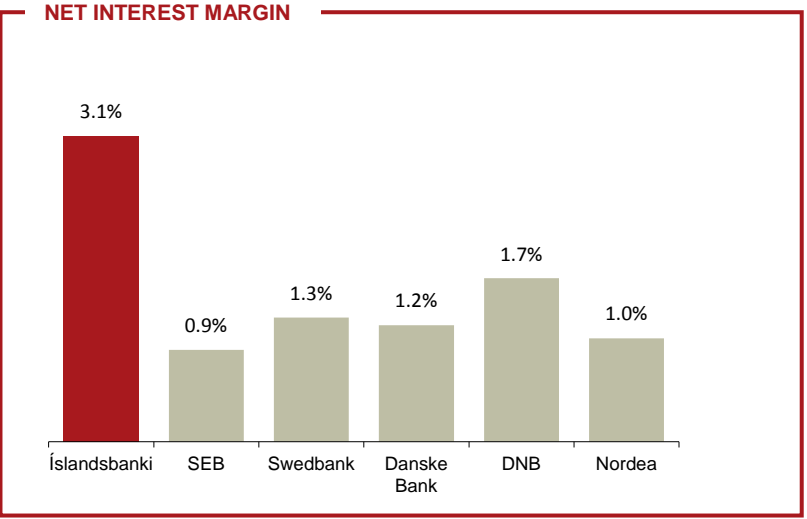
BALANCE SHEET ITEM

HEADS OF AGREEMENT DETAIL

<p>Equity</p>	<ul style="list-style-type: none"> • Reduction of Íslandsbanki's current equity from 28.3% down to 23% capital level; <ul style="list-style-type: none"> - Íslandsbanki issuing equivalent to approximately ISK 16bn in foreign currency subordinated Tier 2 capital and/or additional Tier 1 capital to Glitnir, at market terms with a minimum tenor of 10 years. - Íslandsbanki issuing approximately ISK 36bn bond to Glitnir, at market terms with a tenor of 10 years. - Paying approximately ISK 3bn dividend out to the shareholder, Icelandic State Financial Investments.
<p>AT1/T2</p>	
<p>ISK issuance</p>	
<p>ISK dividend pay-out</p>	
<p>Tier 2</p>	<ul style="list-style-type: none"> • Íslandsbanki issuing new Tier 2 note to Glitnir replacing the existing Tier 2 note denominated in EUR at market terms with a minimum tenor of 10 years
<p>Foreign currency deposits</p>	<ul style="list-style-type: none"> • Íslandsbanki issuing notes equivalent to approximately ISK 37bn under the Bank's MTN program to replace deposits held by Glitnir in foreign currency with Icelandic banks. The note will be issued in tranches with a minimum tenor of 7 years at market terms.
<p>Icelandic krona deposits</p>	<ul style="list-style-type: none"> • Íslandsbanki issuing ISK denominated bonds to Glitnir in an aggregate principal amount equal to deposits held by Glitnir in ISK with Íslandsbanki, at market terms with a tenor of 10 years.
<p>Transfer restrictions</p>	<ul style="list-style-type: none"> • Certain transfer restrictions to be put in place for the Bank's shares

ÍSB compares well to Nordic banks

Key ratios are in line with its peers



Source: Bloomberg

Note: Financials at 31.6.2015

* Íslandsbanki's return from regular operations on normalized equity

5 key messages

A stable performance, with healthy earnings from regular operations

1

BBB-/A-3 rating with stable outlook from Standard and Poor's and BBB-/F3 with stable outlook from Fitch

2

Cost income ratio was 56.0%. Average FTE's reduced by 32

3

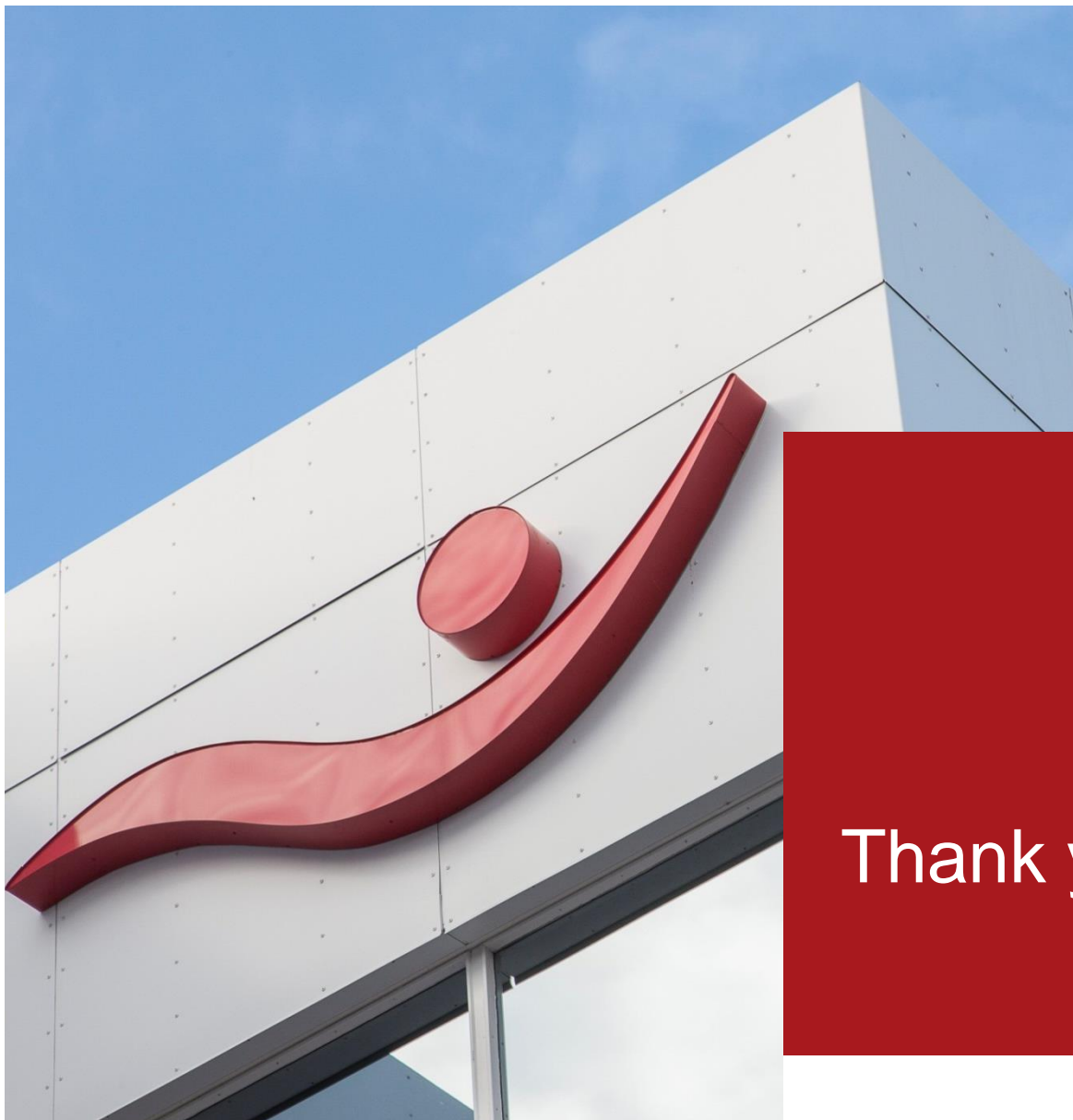
Net fee and commission income was ISK 6.4bn in 1H15 a 13.2% year on year increase

4

Total capital ratio and Tier 1 remain sound at 28.3% and 25.8% respectively

5

Heads of Agreement with Glitnir



Thank you